

## Reserves and Budget Robustness Statement

### 1.0 Reserves

1.1 The Council's approach to the management and accounting for earmarked reserves is set out in the Reserve Strategy adopted by the Cabinet in June 2017. The Reserves have been reviewed using the principles set out in the Policy ensuring that they are reflective of the Council's strategic agenda and the current financial risks and issues the Council faces through the medium term.

1.2 It is crucial to bear in mind that the reserves are the only source of financing to which ESCC has access to fund risks and one-off pressures over a number of years. If ESCC minimises the level of reserves too significantly there is a risk that in future, the ability to properly manage unforeseen or one off costs will be significantly hampered. Reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is increasingly limited.

1.3 Reserves are a key element of the Council's financial management arrangements. Reserves can be broadly categorised as follows:

- **General Fund Balance** - a working balance to manage in-year risks if they cannot be managed via other mitigations. It is best practice for a well-run authority to hold such a balance to assist in delivering services over a period longer than one financial year.
- **Earmarked Reserves** - funds that are held to meet known or anticipated future one-off requirements, facilitating transformation and the management and mitigation of future financial risk and uncertainty.

The external audit undertaken by KPMG in June/July 2018 did not highlight any concerns about the level of general fund balance and reserves held by this authority.

1.4 ESCC General Fund Balance and Earmarked Reserves are estimated to total £93.2m as at 1<sup>st</sup> April 2019: an estimated reduction of £16.1m against the actual reserves at 1<sup>st</sup> April 2018 totalling £109.3m. Movements are:

- Estimated reduction of £6.5m in statutorily ringfenced reserves: mainly due to planned use of £4.1m from Public Health and £2.3m from On Street Car Parking.
- Planned use of £10.0m from the Capital Programme Reserve in 2019/20 (para 1.8).
- There has been a net nil movement of £1.1m between the Insurance Reserve and strategic reserves (para 1.8) for the outcome of actuarial review. Together with a £0.6m transfer from insurance provision to strategic reserves.
- Other net use of strategic reserves totalling £0.2m.

1.5 The estimated balance at 31<sup>st</sup> March 2023 is now £65.2m with use extending beyond the term of the current MTFP period. Of this £26.5m relates to available strategic reserves: this position represents the known planned use for these reserves. The current reserves position is summarised in the table below.

**Table 1: Summary of Reserves**

|   | At State of the County<br>July 2018 (£m) |  | Full Council February<br>2019 (£m) |  |
|---|--|--|------------------------------------|--|
|   | 01.04.18<br>Actual                       | Estimated<br>Balance<br>at<br>31.03.22 | 01.04.19<br>Estimate               | Estimated<br>Balance<br>at<br>31.03.23 |
| <b>Earmarked Reserves:</b>                                |  |  |                                    |  |
| <b>Held on behalf of others or statutorily ringfenced</b> | <b>24.7</b>                              | <b>18.0</b>                            | <b>18.2</b>                        | <b>15.8</b>                            |
| <b>Named Service Reserves</b>                             |  |  |                                    |  |
| Waste Reserve   | 12.8                                     | 12.8                                   | 12.8                               | 8.6                                    |
| Capital Programme Reserve                                 | 21.0                                     | 0.0                                    | 11.0                               | 0.0                                    |
| Insurance Reserve   | 5.4                                      | 5.4                                    | 4.3                                | 4.3                                    |
| <b>Subtotal named service reserves</b>                    | <b>39.2</b>                              | <b>18.2</b>                            | <b>28.1</b>                        | <b>12.9</b>                            |
| <b>Strategic Reserves <sup>1</sup></b>                    |  |  |                                    |  |
| Risk  | 2.8                                      | 4.2                                    | 0.0                                | 0.0                                    |
| Financing   | 22.8                                     | 6.8                                    | 0.0                                | 0.0                                    |
| Financial Management                                      | 0.0                                      | 0.0                                    | 29.7                               | 22.5                                   |
| Priority Outcomes and Transformation                      | 9.8                                      | 3.7                                    | 7.2                                | 4.0                                    |
| <b>Subtotal strategic reserves</b>                        | <b>35.4</b>                              | <b>14.7</b>                            | <b>36.9</b>                        | <b>26.5</b>                            |
| <b>Total Earmarked Reserves</b>                           | <b>99.3</b>                              | <b>50.9</b>                            | <b>83.2</b>                        | <b>55.2</b>                            |
|   |  |  |                                    |  |
| <b>General Fund Balance</b>                               | <b>10.0</b>                              | <b>10.0</b>                            | <b>10.0</b>                        | <b>10.0</b>                            |
|   |  |  |                                    |  |
| <b>TOTAL RESERVES</b>                                     | <b>109.3</b>                             | <b>60.9</b>                            | <b>93.2</b>                        | <b>65.2</b>                            |

<sup>1</sup> Following a review of Strategic Reserves, Risk and Financing have now been merged into Financial Management. The Reserves Policy has been updated and is attached at Annex A.

1.6 At 1<sup>st</sup> April 2019 the estimated Earmarked Reserves are as follows:-

1.7 **Held on behalf of others or statutorily ringfenced** amount to £18.2m – most significantly this comprises £10.7m schools balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £3.5m (Public Health grant is ringfenced until 31<sup>st</sup> March 2020).

1.8 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £28.1m and comprise of a:-

- Waste Reserve – to manage financial risks relating to the waste contract. These risks are reviewed and managed through this reserve on a 4 year rolling programme; the reserve is shown as reducing to reflect emerging risks, which include but are not limited to reduced recycle prices increasing disposal costs, reduced recycling during collection contractor transition in the next two years, and changes in law/compliance with waste regulations/contractor policy change.
- Capital Programme Reserve – to support the Council’s Capital Programme and to reduce the need to borrow and the consequential increase in pressure on revenue budgets. It will reduce to zero over the life of the programme to 2023.
- Insurance Reserve – based on actuarial review of insurance liabilities that have arisen over previous years, this represents the liability that the actuary estimates may become payable in 2019/20 and beyond. The latest report reduces the required funds to £4.3m releasing £1.1m, the balance for provision reducing by a further £0.6m. The reduction has been split between Strategic Reserves: £1.0m to Financial Management and £0.7m to Priority Outcomes and Transformation.

- 1.9 Following review of the **strategic reserves**, and reflecting feedback from the Audit Committee, the policy has been updated to simplify the reserves held, reducing them from three to two. These are as follows:-
- The Priority Outcomes and Transformation reserve – to fund the transformation programme to change, protect and improve Council services.
  - A Financial Management reserve (now combined with the financial risk reserve) – to manage the potential financial consequences of risks recognised in the Council’s risk management arrangements and the Chief Finance Officer’s (CFO) robustness statement, and to enable the effective management of the medium-term financial strategy and investment strategy.
- 1.10 There has been a movement on the strategic reserves since they were last reported; they are now estimated to be £36.9m at 1<sup>st</sup> April 2019 (revised from £35.4m at State of the County). The balance at 31<sup>st</sup> March 2023 of the strategic reserves was estimated to be £14.7m at State of the County and is now estimated at £26.5m. The key movements in these balances are as follows:
- Priority Outcomes and Transformation reserve – a net increase of £0.3m due to the part allocation of £0.7m from the reduced insurance reserve (para 1.8), offset by new allocations of £0.4m.
  - Financial Management reserve (formerly Risk reserve and Financing reserve) – an increase of £11.5m, movements shown in Table 2 below.

**Table 2: Movements in Financial Management Reserve**

| <b>Narrative</b>   | <b>Movement</b> |
|--|-----------------|
| New funding has allowed a contribution to be made to reserves. This will be held to manage MTFP peaks, implementation of the core offer and other unforeseen events.   | £4.8m           |
| National Living Wage (NLW) - a provision of £4.7m was set aside to mitigate the pressure arising from NLW in 2018/19 and 2019/20. Once the pay award for 2018/19 was finalised, £1.7m was utilised for that year, with the remaining £3.0m to be fully used in 2019/20. This has left a one-off surplus in 2018/19 of £3.0m. | £3.0m           |
| Estimated outturn position 2018/19   | £1.7m           |
| The 2017/18 final position advised by Districts & Boroughs for business rates and collection fund.   | £1.4m           |
| A top up from the insurance reserve of £0.4m and transfer of provision balance of £0.6m (per para 1.8).  | £1.0m           |
| Contribution to the capital programme  | -£0.6m          |
| <b>Total Movement</b>  | <b>£11.5m</b>   |

- 1.11 It is increasingly important to hold sufficient reserves, and the Council’s reserves increasingly play a crucial role in the robustness of its financial planning given the uncertainty around future local government funding. It therefore continues to be a priority to, where possible, bolster the Financial Management reserve with any unused contingency, once the final outturn position is known, and other one-off funding.
- 1.12 Additionally it is proposed that, as in previous years, any changes to Business Rates and Collection Fund be managed through reserves. Details of the reserves summarised above can be found in the Budget Book at Appendix 2. The Chief Finance Officer Statement on Budget Robustness follows.

## **2.0 Chief Finance Officer Statement on the Budget Robustness**

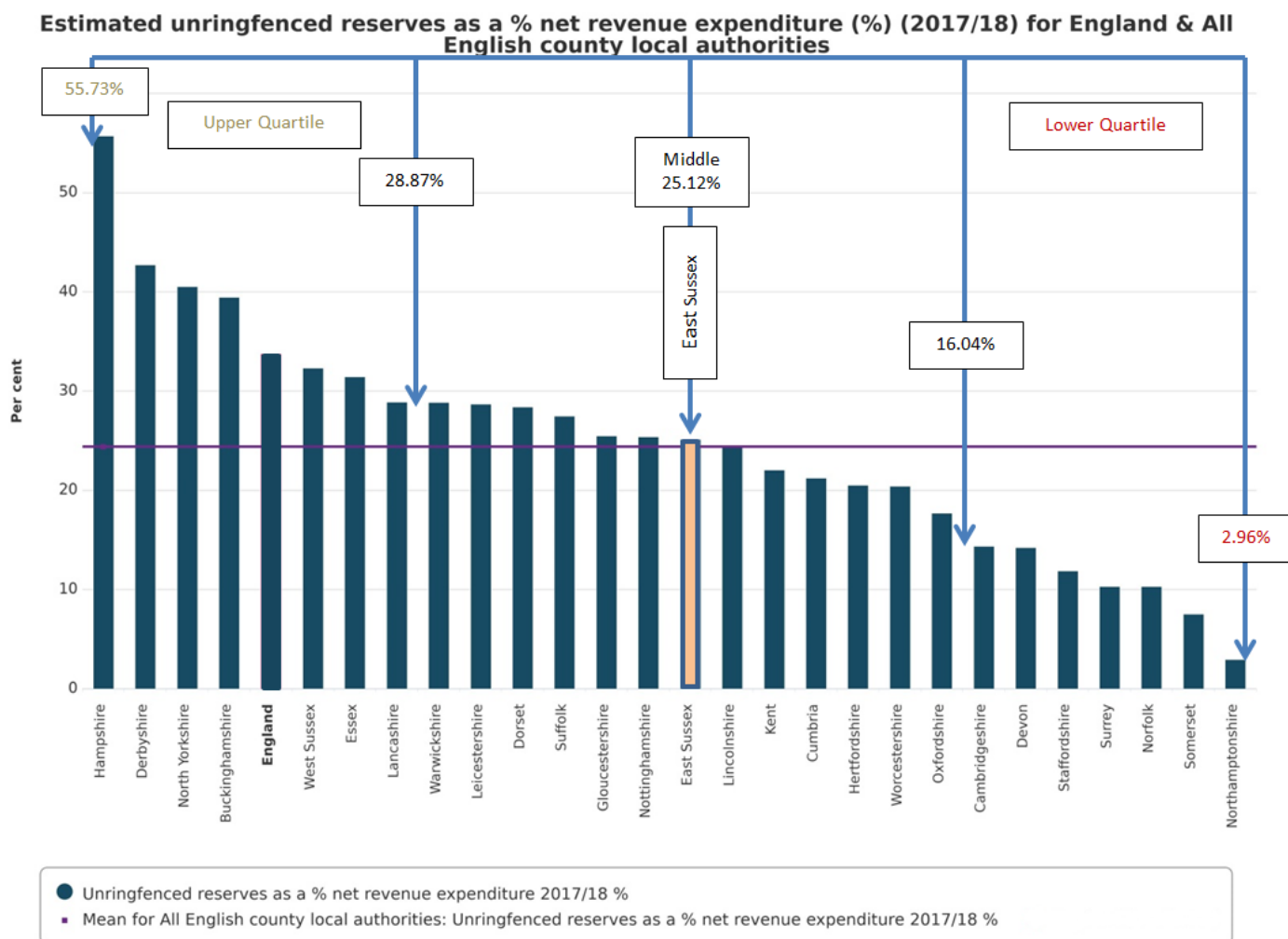
- 2.1 Section 25 of the Local Government Act 2003 places a statutory duty on the Chief Financial Officer (CFO) to review the Medium Term Financial Strategy and comment upon the robustness of the budget and the adequacy of the reserves to be held by the authority when it is making the statutory calculations required to determine its Council Tax or precept. The authority is required to take this report into account when making that decision.
- 2.2 Section 26 of the Local Government Act 2003, places an onus on the CFO to ensure the authority has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

## **3.0 Report of the Chief Financial Officer on the robustness of the 2019/20 budget proposal.**

- 3.1 It is the opinion of the CFO that the draft budget for 2019/20 is based upon a sound financial strategy that will enable the Council to deliver its proposed Council Plan successfully.
- 3.2 Both the Revenue Budget and Capital Programme have been formulated having regard to a number of factors including funding availability; risks and uncertainties; inflation; priorities; demography and service pressures. The development of the Core Offer, although not specifically about setting a balanced budget, has enabled the Council to engage nationally and locally with Government Ministers, MPs and local partners and stakeholders to set out what level of services the residents of East Sussex should expect from a well-run, financially sound authority.
- 3.3 As the development of the Council Plan and budget for 2019/20 has progressed, the position has been subject to reviews with Chief Officers, other officers and Members, including Cabinet and Scrutiny Committees. Due consideration has also been given to reconciling the over-arching financial strategy with corporate priorities and hence all the proposals have been developed as an integral part of service planning (the process known as Reconciling Policy, Performance and Resources).
- 3.4 The 2019/20 budget is balanced and, in finalising the draft budget, consideration has been given to unforeseen issues that could arise during the year and ensuring that those risks can be managed. The strategic risk register has been reviewed and an analysis of ESCC's financial position in the current year has been carried out, to identify direct impacts and risks that are inherent within the 2019/20 budget. Notwithstanding that the draft budget for 2019/20 is balanced, there are significant risks to the budget, arising from the continued growth in social care and other service pressures together with the work required to progress towards the Core Offer. The Core Offer is not about setting a balanced budget, more about what agreed service level can be delivered; it has allowed engagement both locally and nationally on what the financial pressures on local authorities will mean. The County Council holds a general contingency of £3.5m to cushion the impact of unexpected events and emergencies in year (within the base revenue budget). Additionally there is a sum (agreed at State of the County) for potential additional borrowing for the capital programme of £7.5m.
- 3.5 Increasing the Council Tax will provide a more sustainable and increased income to the Council which will help to protect services. Implementing the 2.99% precept will support and help protect services that are already under significant pressure.

3.6 The **Adequacy of Earmarked Reserves** has been reviewed and is considered reasonable. The approach remains to take every opportunity to increase reserves to help future proof Council services during this time of financial uncertainty and given a spike in pressures in 2020/21. The strategic reserves of £26.5m remain available for smoothing the MTFP and mitigating any delayed achievement of savings, the core offer and any unforeseen events arising. In support of this consideration, graph 1 below shows the LGA's analysis of unringfenced reserves as a % of net revenue expenditure in 2017/18. This shows the Council to be placed at 14<sup>th</sup> out of the 27 shire counties, with reserves at 25.1% of net revenue expenditure. Even after applying estimated use in 2018/19 this would still see the county at 25.8% of net revenue expenditure.

**Graph 1: Unringfenced Reserves as a % of Net Revenue Expenditure 2017/18**

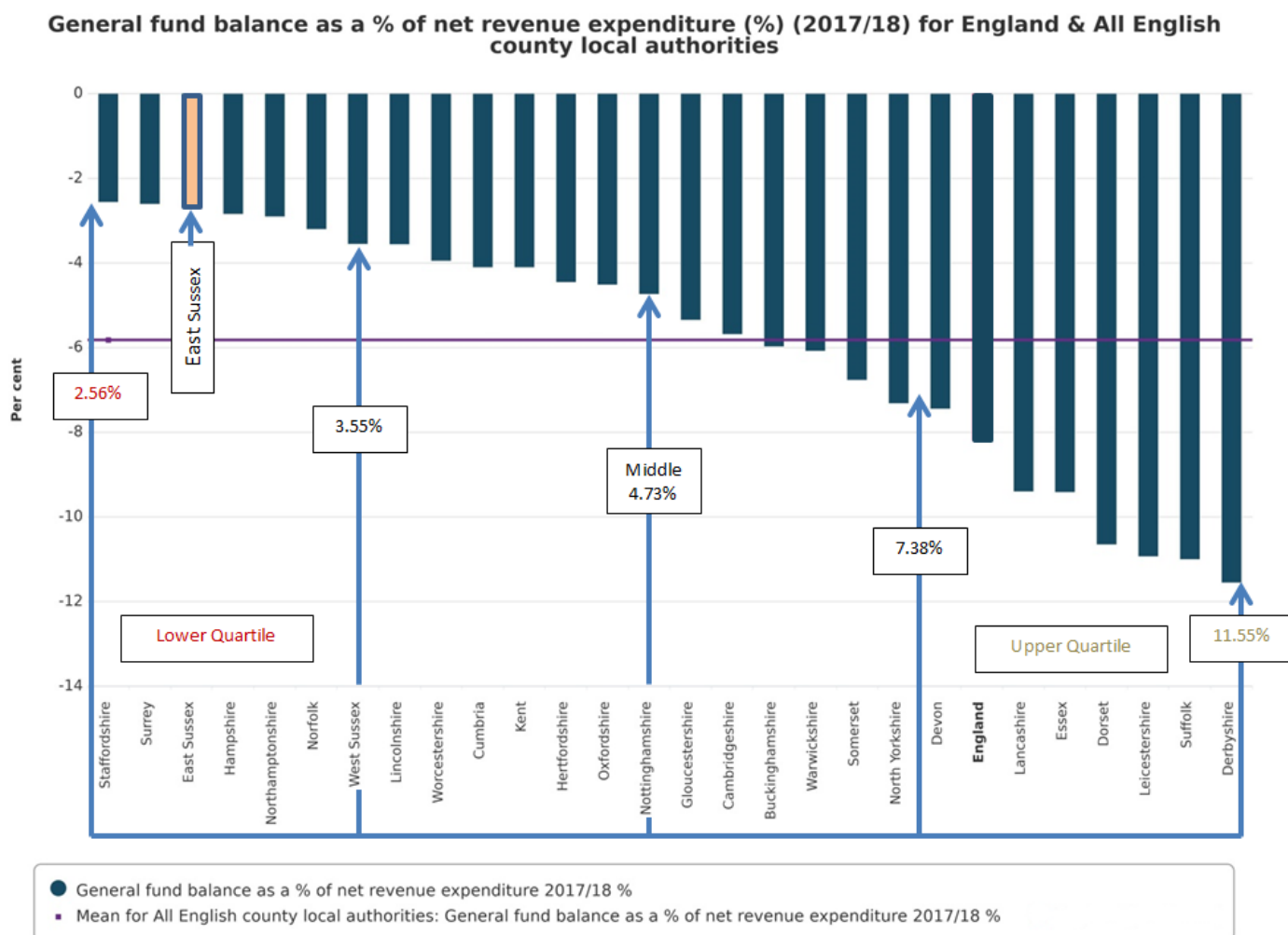


Source:  
Local Government Association

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3.7 For the **General Fund Balance** there are two main approaches taken by Councils to determine their required minimum level: either by a straight percentage of the Council's current spending: or an assessment of risks and the impact identified risks will have on the Council's overall financial position. The Local Government Association has provided some benchmarking data which shows that in 2017/18, the Council was ranked 25<sup>th</sup> out of the 27 shire counties in terms of general fund balance as a % of net revenue expenditure, see Graph 2 below.

**Graph 2: General Fund Balance as a % of Net Revenue Expenditure 2017/18**



Source:  
Local Government Association

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- 3.8 The challenge is to maintain an appropriate level of reserves, whilst also mitigating the pressures faced within the MTFP.
- 3.9 A risk-based assessment of issues, which could have a major impact on the Council's finances, provides a more flexible and responsive approach that better reflects the continuously changing environment within which Local Government has to work. This approach will take into account the type of risk, the potential magnitude of the financial risk and a judgement as to how likely the issue is to arise. Table 3 below identifies a number of the high level risks that may have financial implications, which assist in determining the required minimum level of General Fund Balance to be retained.

**Table 3: Financial Assessment of 2019/20 Risks**

| Risk   | Potential magnitude   | Estimate of potential impact                 | Magnitude |
|--|---|--|-----------|
|  |   |  | £m        |
| Growing demand for services is already impacting on service budgets particularly in Children's Services (CSD) and Adult Social Care (ASC). Service departments are forecasting a £5.0m overspend in 2018/19 [Q2.5 position].                 | ASC 2019/20 budget £171.3m. CSD SEND budget for 2019/20 £9.2m.              | 2% increased unfunded demand                 | 3.6       |
| Risk that inflation on utilities and other areas where budgets were not uplifted for inflation become unmanageable within budget allocations.  | Total utilities and other budget 2019/20 circa £78m.                        | 3% increase in current provision.            | 2.3       |
| Delivery of the core offer is complex and plans still to be finalised. Therefore a risk exists that it will not be possible to make the planned service changes within the timeframe required.   | Impact of moving to core offer is £5.1m.                                    | 20% non-achievement                          | 1.0       |
| Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate.   | Planned Fees & Charges for 2019/20 is £62.5m.                               | Underachievement provision of 5%             | 3.1       |
| Business Rate Revaluation and forecasting risk significantly increases risk of inaccurate forecasts.   | Reduction in anticipated revenue from Business rates local share of £39.1m. | Rates collected reduces by 5%                | 2.0       |
| Changes in historic weather patterns may be being the potential for adverse weather conditions which may present the Council with additional unfunded costs. The impact of weather as opposed to additional prevention cannot be quantified. | Historic winter maintenance spend is circa £1.1m.                           | 10% increase in costs due to adverse weather | 0.1       |
| <b>Impact of Brexit:</b>   |   |  |           |
| Inflation  | Inflation provided in MTFP £10.8m.  | 5% increase in current provision             | 0.5       |
| Infrastructure (e.g. transportation links; emergency planning)   | £72.0m estimated highways infrastructure expenditure 2019/20 to 2022/23     | 2% additional cost                           | 1.4       |
| Unexpected Costs (e.g. additional trading standards officers; waste collection; service delivery etc.)   | Estimated net budget for ESCC in 2019/20 is £375.1m.                        | 1% increase in costs                         | 3.8       |

3.10 Taking everything into account, the General Fund Balance of £10.0m, is sufficient based on professional judgement which, given the level of risks, is a minimum general balance and remains lower proportionately than a lot of other authorities. This is considered adequate on the basis that the budget balances for 2019/20 and that, in addition, as noted at 3.4, an in-year contingency is held.

3.11 The MTFP provides an estimated position for the next three years, shown at Table 4.

**Table 4: MTFP Position**

|   | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|---|----------------|----------------|----------------|
| Estimated Annual Deficit / (Surplus) - non cumulative | £0.000m        | £11.879m       | £2.180m        |
| Estimated Annual Deficit / (Surplus) - cumulative     | £0.000m        | £11.879m       | £14.059m       |

3.12 We are balancing the budget for 2019/20, and although there are challenges and significant levels of uncertainty, the Council has a robust planning process and sufficient reserves, and will continue to strive towards a balanced position in 2020/21.

3.13 For future years work will continue to identify savings in a number of areas including the cost of operations and financing. In addition the effects of a number of national funding decisions will impact on the financial position. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potential significant financial impact, and include:-

- Changes to the Local Government finance system to pave the way for the implementation of Business Rate Retention. As part of these reforms, the main Local Government grant will be phased out and additional responsibilities devolved to Local Authorities. This will be through incorporating existing grants including Public Health (effectively ending the ring fence) and Revenue Support Grant. The new responsibilities are as yet unknown and could bring significant risks to funding, particularly if they are demand led. Business Rate Retention will sit alongside the implementation of the outcome from the fair funding review, and the Government have announced they will aim for local authorities to retain 75% of business rates from 2020/21. Business rates will then be redistributed according to the outcome of this new needs assessment. It is not currently possible to estimate the impact of this on the Council until further detail is provided;
- The Comprehensive Spending Review: Central Government is set to review funding allocations to all departments, which will impact from 2020/21 but no information is available at this stage;
- The Fair Funding Review consultation and outcome; this will be the basis of the new needs assessment upon which business rates will be redistributed; and
- The Green Paper on the future funding of social care.

3.14 The uncertainty regarding the future finance system means it is increasingly important to hold sufficient reserves to manage this unquantifiable financial risk. Therefore it continues to be proposed that every opportunity should be taken to top up the Council's strategic reserves.

3.15 In addition to all these areas of uncertainty, the effects of Brexit on the economy of the country, the duties the Government expects us to carry out and the workforce available to both the Council and the service providers on whom we rely, particularly in the Care Sector, remain unclear. It will be an additional factor that we need to take into account as the details of any deal and the practical realities begin to emerge.



## Reserves and Balances Policy

### 1.0 Background

This policy sets out the Council's approach to reserves and balances. The policy has regard to LAAP Bulletin 77 "Local Authority Reserves and Balances", issued in November 2008.

1.1 In reviewing medium-term financial plans and preparing annual budgets, the Council will consider the establishment and maintenance of reserves for the general fund. The nature and level of reserves will be determined formally by the Council, informed by the judgement and advice of the Chief Finance Officer (CFO).

### 2.0 Types of Reserve

The Council will maintain the following reserves:

- A working balance to manage in-year risks, called the General Fund Balance;
- A means of building up funds to meet known or predicted requirements, called Earmarked Reserves.

2.1 Earmarked reserves will be maintained as follows:

- priority outcomes and transformation reserve: to fund the transformation programme to change, protect and improve Council services;
- financial management reserve: to manage the potential financial consequences of risks recognised in the Council's risk management arrangements and the CFO's robustness statement, and to enable the effective management of the medium-term financial strategy and investment strategy.
- named service reserves will be held specifically for the capital programme, waste contract risk and insurance risk.
- other reserves will be held on behalf of others (e.g. Schools) and/or statutorily ring-fenced (e.g. Public Health).

2.2 The Council will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, are for accounting purposes and will be specified in the annual Statement of Accounts.

### 3.0 Principles to assess the adequacy of reserves

The CFO will advise the Council on the adequacy of reserves. In considering the general reserve, the CFO will have regard to:

- the strategic financial context within which the Council will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the budget monitoring and management process

3.1 Having had regard to these matters, the CFO will advise the Council on the monetary value of the required general reserve.

3.2 In considering specific reserves, the CFO will have regard to matter relevant in respect of each reserve, and will advise the Council accordingly.

### 4.0 Underspends

The process for determining the specific use of any underspend will be based upon the principles of effective financial management. Therefore underspends will not automatically be carried forward via reserves, nor will they only be available to the service that has identified the underspend.

- 4.1 Periodically during the year, Services will be asked to submit business cases for the use of underspend. Business cases will be determined by the CFO in conjunction with the Corporate Management Team. These will then be held in a Strategic Reserve.
- 5.0 Use of reserves  
Members, as part of agreeing the budget, will agree the policy for drawdown of reserves on the advice of the CFO. Use of reserves will be approved by CMT and reported to Cabinet as part of the RPPR monitoring process.
- 5.1 The CFO will monitor the drawdown of specific reserves in accordance with the agreed policy, and keep Members advised.